



Sensys Gatso Group

Accelerating growth in orders, sales, and profits

Robust results on all fronts

Sensys Gatso delivered a solid report on all fronts. Order intake grew by 174%, driven by the US, the Middle East, and the Netherlands. Net sales were up 65%, driven by high systems sales, with deliveries for a large Middle Eastern contract resuming. EBITDA of SEK 19.2m surpassed Q3 2022 (6.4m) and was unchanged q/q, in what is normally a weak quarter. Cash flows were negative as the company has invested in new platforms and equipment, while it has also built up working capital to handle the recent solid order intake. Cash flows should improve from here as deliveries increase and these adjustment investments normalise.

Preparation phase drawing to a close – favourable conditions for recurring revenues

The company has been in a heavy investment phase that is now reaching its conclusion. The first prototypes have been delivered to Trafikverket (Swedish Transport Administration), and serial deliveries are a few months away. At the same time, demand for TRaaS services is increasing in the US, where federal programmes support speed control, especially in proximity to schools. Even in states like Florida, speed control is becoming increasingly politically viable. In emerging markets, there is widespread openness to the TRaaS model, while previous equipment deliveries to the Middle East increase the potential for recurring service revenues.

Unchanged estimates and fair value

The Q3 report was in line with our full-year 2023 scenario. We thus leave our forecasts and fair value unchanged. Given the recent solid order intake, we see considerable potential for healthy earnings growth, suggesting the company will hit its long-term target of SEK 1bn in sales and an EBITDA margin of 15% in 2025. Performance has been weak for a time owing to costs for adjustments and investments in software and staff. This year, which should be considered a time of transition, is soon over, and the share is trading at appealing multiples based on our forecasts. The sustainability aspect is clear when considering the UN's targets, and an indicator like rolling 12-month EBITDA is now rising after a period of weakness.

Estimate changes				Forecasts (SEKm)				Valuation and risk														
	23e	24e	25e		2022	2023e	2024e	2025e	Fair value	SEK 90,0 - 95,0												
Total revenues	0,3%	0,0%	0,0%	Total revenues	495	588	845	1 006	Share price	SEK 70,5												
EBIT, adj.	-0,8%	0,0%	0,0%	Growth	-2%	19%	44%	19%	Risk level	Medium												
EPS, adj.	2,5%	0,0%	0,0%	EBITDA, adj.	73	78	139	166	<div style="background-color: #006666; color: white; padding: 5px; text-align: center;">12-mth share price development</div>													
Coming events				EBIT, adj.	31	32	95	114														
Q4 - report	22 February 2024			EPS, adj.	1,7	2,1	6,2	7,6														
Q1 - report	26 April 2024			EPS growth, adj.	-43%	21%	>100%	24%														
Company details (SEKm)				Equity per share	54,4	56,5	62,6	70,3														
Number of shares	12m			Dividend per share	0,0	0,0	0,0	0,0														
Market capitalisation	812			EBIT margin, adj.	6,2%	5,4%	11,3%	11,3%														
Net debt	94			ROE, adj.	3,4%	3,8%	10,3%	11,5%														
EV	907			ROCE, adj.	4,5%	4,5%	12,5%	13,5%														
Free float	82%			EV/Sales	1,8x	1,5x	1,1x	0,9x														
Daily trading volume, average	8k			EV/EBITDA	12,2x	11,7x	6,5x	5,5x														
Bloomberg Ticker	SENS SS EQUITY			EV/EBIT	29,0x	28,3x	9,5x	8,0x														
Analyst				P/E, adj.	45,9x	33,4x	11,4x	9,3x	<div style="background-color: #006666; color: white; padding: 5px; text-align: center;">Conflicts of interest</div> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>Liquidity provider</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Certified adviser</td> <td></td> <td style="text-align: center;">✓</td> </tr> <tr> <td>Transactions, 12 mth</td> <td></td> <td style="text-align: center;">✓</td> </tr> </tbody> </table>			Yes	No	Liquidity provider		✓	Certified adviser		✓	Transactions, 12 mth		✓
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Liquidity provider		✓																				
Certified adviser		✓																				
Transactions, 12 mth		✓																				
Örjan Rödén				Price/book value	1,5x	1,2x	1,1x	1,0x														
orjan.rodén@penser.se				FCF yield	9%	-4%	9%	11%														
				Net debt/EBITDA	-0,3x	0,1x	-0,5x	-0,9x														

Investment case

Higher share of recurring revenues

Sensys Gatso is focusing on a higher share of recurring revenues from TRaaS (traffic enforcement as a service), which implies more revenue stability. Its goal is for TRaaS to account for more than 60% of turnover by 2025. We expect the company to achieve this and for its annual growth in recurring revenues to surpass 20% in the coming five years.

TRaaS – future revenue source in the public sector

TRaaS represents increased revenues for public entities without having to invest capital or increase current operating costs. Sensys Gatso undertakes the entire operational and investment responsibility and shares the revenues with clients. TRaaS will thus allow a higher share of public spending by clients, while also reducing the costs of traffic injuries and mortality.

Greater geographical presence

Sensys Gatso is growing a broad geographical footprint, including in North and South America and the Middle East. The need for traffic control in these markets is extensive. There is also great openness towards the TRaaS model compared with Scandinavia, for example. This allows for a higher share of TRaaS revenues over time. The potential is most prominent in the US.

High tech content suggests greater value creation

At first glance, Sensys Gatso appears to be a company with low tech content: traffic cameras are not, by definition, an advanced technology. But in reality, its tech content is growing as peripheral services around the surveillance itself increase. This ensures greater profitability and more consistent sales in the future.

Focus on traffic safety, a better environment, and lower energy use creates favourable growth conditions

Society's efforts towards greater sustainability offer superb opportunities for future demand. The strongest driver of this is the focus on improved traffic safety to save lives and reduce injuries, which, as well as minimising suffering, also saves considerable societal resources. Lower speeds thanks to traffic control also lead to reduced emissions, which is positive for health and the environment, helping to reduce energy consumption.

Company profile

Sensys Gatso is the result of a 2015 merger between Sweden's Sensys and Gatso of the Netherlands. The company sells traffic safety products and services to various public players. Examples of its products include speed cameras and traffic lights. Sensys Gatso has also developed software that can automate the entire process of fines for traffic offences. A typical example is a speed camera that photographs the speeding driver, with the vehicle's owner identified with the help of Sensys Gatso's software and the fine then issued by the system. Sensys Gatso can also manage the financial aspects of the fines.

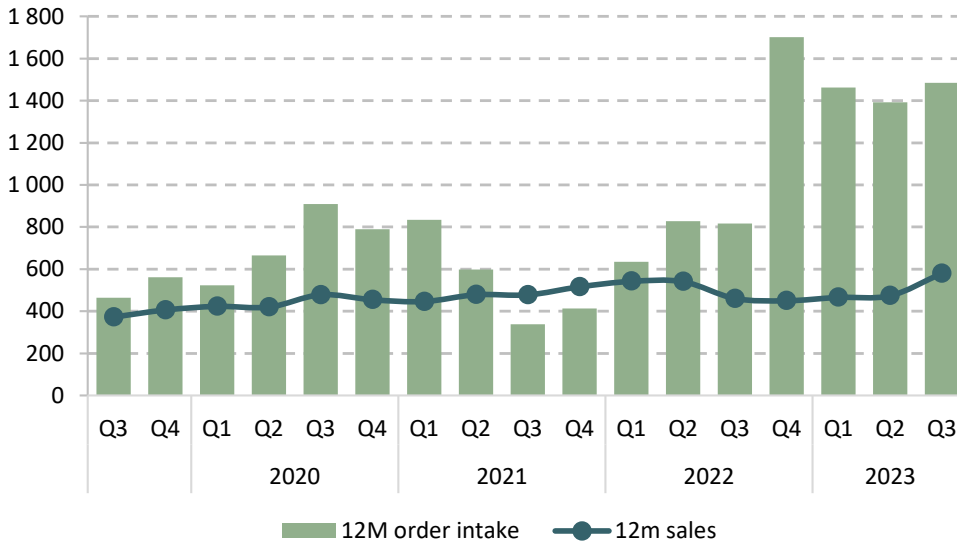
Valuation

We value Sensys Gatso using a DCF model, including WACC of 14%, a sustainable operating margin of 13%, and long-term growth of 3%. This suggests a DCF value of SEK 93 per share. We believe the company will achieve its 2025 target and continue its growth thereafter. A greater share of revenues from software overall, and TRaaS in particular, would ensure higher margins in the long term than before.

Brief overview of the quarter

Sensys Gatso delivered a solid report on all fronts. Order intake grew by 174%, driven by the US, the Middle East, and the Netherlands. Net sales were up 65%, driven by high systems sales, with deliveries for a large Middle Eastern contract resuming.

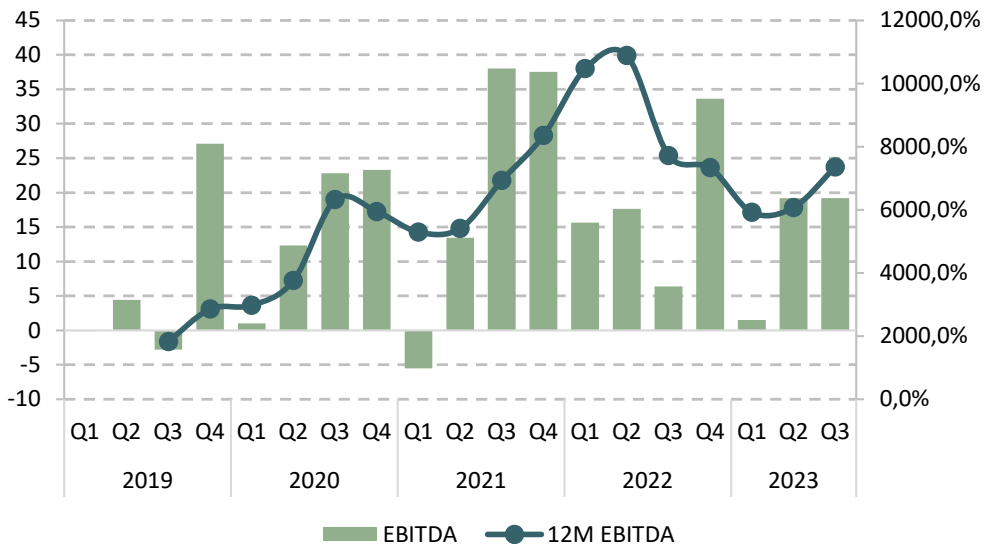
12-month order intake and sales



Source: Company, EPB

EBITDA of SEK 19.2m surpassed Q3 2022 (6.4m) and was unchanged q/q, in what is normally a weak quarter.

EBITDA, quarterly and 12-month



Source: Company, EPB

Cash flows were negative as the company has invested in new platforms and equipment, while it has also built up working capital to handle the recent solid order intake. Cash flows should improve from here as deliveries increase and these adjustment investments normalise.

Valuation

DCF – summary

Valuation output		WACC assumptions		Terminal value assumptions	
Sum of PV of FCF (explicit period)	664	Risk free nominal rate	2,5%	Long term growth rate	3,0%
PV of terminal value (perpetuity formula)	502	Risk premium	5,5%	Long term EBIT margin	13,0%
Enterprise value	1 167	Extra risk premium	4,0%	Depreciation (% of sales)	6,0%
Latest net debt	94	Beta	0,0	Capex (% of sales)	6,0%
Minority interests & other	0	WACC	14,0%	Working cap. (% of sales)	1,8%
Equity value	1 073	Tax rate			20%
No. of shares outstanding (millions)	12				
Equity value per share	93				

Source: Company, EPB

DCF – sensitivity analysis

		Long-term growth rate					Long-term EBIT margin						
		1,0%	2,0%	3,0%	4,0%	5,0%			8,0%	10,5%	13,0%	15,5%	18,0%
WACC	13,0%	96	100	105	110	118	13,0%	58	82	105	128	151	
	13,5%	91	94	99	104	110	13,5%	55	77	99	120	142	
	14,0%	86	89	93	97	103	14,0%	52	73	93	114	134	
	14,5%	82	85	88	92	96	14,5%	49	69	88	107	127	
	15,0%	78	81	83	87	91	15,0%	47	65	83	102	120	

Source: Company, EPB

Income statement

	2019	2020	2021	2022	2023e	2024e	2025e
Net sales	406	455	507	495	588	845	1 006
Total revenues	406	455	507	495	588	845	1 006
Cost of goods sold	-208	-244	-274	-270	-325	-448	-533
Gross profits	198	210	233	225	263	397	473
Other operating costs	-169	-151	-150	-152	-185	-258	-307
EBITDA	29	59	84	73	78	139	166
EBITDA, adjusted	29	59	84	73	78	139	166
Depreciation	-53	-49	-38	-43	-46	-44	-52
EBITA, adjusted	-24	11	46	31	32	95	114
EBIT	-24	11	46	31	32	95	114
EBIT, adjusted	-24	11	46	31	32	95	114
Net financial items	-3	-8	1	2	-5	0	0
Profit/loss before tax	-28	2	47	33	27	95	114
Profit/loss before tax, adjusted	-28	2	47	33	27	95	114
Total taxes	12	1	-12	-13	-3	-24	-26
Net income	-15	4	35	20	24	71	88
Net income, adjusted	-15	4	35	20	24	71	88
Revenue growth	-	12%	11%	-2%	19%	44%	19%
Gross margin	48,7%	46,3%	46,0%	45,5%	44,7%	47,0%	47,0%
EBIT margin, adjusted	Neg.	2,4%	9,1%	6,2%	5,4%	11,3%	11,3%
EPS, adjusted	-1,41	0,36	3,04	1,74	2,11	6,16	7,61
EPS growth, adjusted	-	N.m.	>100%	-43%	21%	>100%	24%

Source: Sensys Gatso Group, EPB

Cash flow analysis

	2019	2020	2021	2022	2023e	2024e	2025e
EBIT	-24	11	46	31	32	95	114
Other cash flow items	56	47	24	30	37	14	12
Changes in working capital	-36	-42	-61	64	-69	2	-3
Cash flows from operating activities	-4	15	9	126	0	111	123
Investments in fixed assets	-41	-19	-24	-19	46	-5	-7
Investments in intangible fixed assets	-4	-14	-18	-26	-80	-30	-30
Cash flows from investment activities	-45	-33	-42	-45	-34	-35	-37
Free cash flows	-49	-18	-33	81	-34	76	86
Rights issues / buybacks	0	71	0	0	0	0	0
Other items	24	2	-4	-55	0	0	0
Cash flows from financing activities	24	73	-4	-55	0	0	0
Cash flows	-25	55	-36	25	-34	76	86
Net debt	77	10	44	-24	10	-66	-152

Source: Sensys Gatso Group, EPB

Balance sheet

	2019	2020	2021	2022	2023e	2024e	2025e
ASSETS							
Goodwill	257	242	251	277	277	277	277
Other intangible assets	53	47	57	69	127	135	139
Tangible fixed assets	101	86	92	105	36	19	0
Other fixed assets	45	40	36	40	41	47	61
Total fixed assets	457	416	436	491	481	478	477
Inventories	87	127	97	85	129	144	171
Trade receivables	75	68	141	67	118	118	141
Other current assets	35	47	51	85	71	76	91
Cash and cash equivalents and short-term investments	52	108	72	100	65	142	228
Total current assets	249	351	361	337	383	479	630
TOTAL ASSETS	706	767	797	828	864	957	1 107
EQUITY AND LIABILITIES							
Equity	450	517	561	626	650	721	809
Minority interests	-1	-2	0	0	0	0	0
Total equity	449	515	562	626	651	722	809
Long-term interest-bearing liabilities	39	37	44	44	44	44	44
Non-current lease liabilities	23	19	14	12	12	12	12
Other long-term liabilities	14	9	7	19	19	19	19
Total long-term liabilities	77	66	65	75	75	75	75
Short-term interest-bearing liabilities	57	53	50	9	9	9	9
Trade payables	47	62	37	20	25	29	42
Current lease liabilities	10	9	9	10	10	10	10
Other current liabilities	66	63	75	87	94	112	160
Total current liabilities	180	187	170	127	138	160	222
TOTAL EQUITY AND LIABILITIES	706	767	797	828	864	957	1 107

Source: Sensys Gatso Group, EPB

Growth and margins

	2019	2020	2021	2022	2023e	2024e	2025e
Revenue growth	-	12%	11%	-2%	19%	44%	19%
EBITDA growth, adjusted	-	>100%	40%	-12%	6%	80%	19%
EBIT growth, adjusted	-	N.m.	>100%	-33%	4%	>100%	19%
EPS growth, adjusted	-	N.m.	>100%	-43%	21%	>100%	24%
Gross margin	48,7%	46,3%	46,0%	45,5%	44,7%	47,0%	47,0%
EBITDA margin	7,0%	13,1%	16,5%	14,8%	13,2%	16,5%	16,5%
EBITDA margin, adjusted	7,0%	13,1%	16,5%	14,8%	13,2%	16,5%	16,5%
EBIT margin	Neg.	2,4%	9,1%	6,2%	5,4%	11,3%	11,3%
EBIT margin, adjusted	Neg.	2,4%	9,1%	6,2%	5,4%	11,3%	11,3%
Profit margin, adjusted	Neg.	0,9%	6,9%	4,0%	4,1%	8,4%	8,7%

Source: Sensys Gatso Group, EPB

Profitability

	2019	2020	2021	2022	2023e	2024e	2025e
ROE, adjusted	Neg.	1%	7%	3%	4%	10%	11%
ROCE, adjusted	Neg.	2%	7%	4%	4%	13%	14%
ROIC, adjusted	Neg.	2%	8%	5%	5%	14%	17%

Source: Sensys Gatso Group, EPB

Capital efficiency

	2019	2020	2021	2022	2023e	2024e	2025e
Inventory / total revenues	21%	28%	19%	17%	22%	17%	17%
Trade receivables / total revenues	19%	15%	28%	14%	20%	14%	14%
Trade payables / cost of sales	23%	26%	14%	8%	8%	7%	8%
Total current liabilities / total expenses	48%	47%	40%	30%	27%	23%	26%
Working capital / total revenues	21%	26%	35%	26%	34%	23%	20%
Capital turnover rate	0,7x	0,7x	0,7x	0,7x	0,8x	1,1x	1,1x

Source: Sensys Gatso Group, EPB

Financial position

	2019	2020	2021	2022	2023e	2024e	2025e
Net debt	77	10	44	-24	10	-66	-152
Equity asset ratio	64%	67%	70%	76%	75%	75%	73%
Net debt/equity ratio	0,2x	0,0x	0,1x	0,0x	0,0x	-0,1x	-0,2x
Net debt / EBITDA	2,7x	0,2x	0,5x	-0,3x	0,1x	-0,5x	-0,9x

Source: Sensys Gatso Group, EPB

Share data

	2019	2020	2021	2022	2023e	2024e	2025e
EPS	-1,41	0,36	3,04	1,74	2,11	6,16	7,61
EPS, adjusted	-1,41	0,36	3,04	1,74	2,11	6,16	7,61
FCF per share	-4,53	-1,60	-2,85	6,99	-2,98	6,61	7,47
Dividend per share	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Equity per share	41,8	46,8	48,8	54,4	56,5	62,6	70,3
Number of shares at year-end, m	10,8	11,0	11,5	11,5	11,5	11,5	11,5
Number of shares after dilution, average	10,8	11,0	11,5	11,5	11,5	11,5	11,5

Source: Sensys Gatso Group, EPB

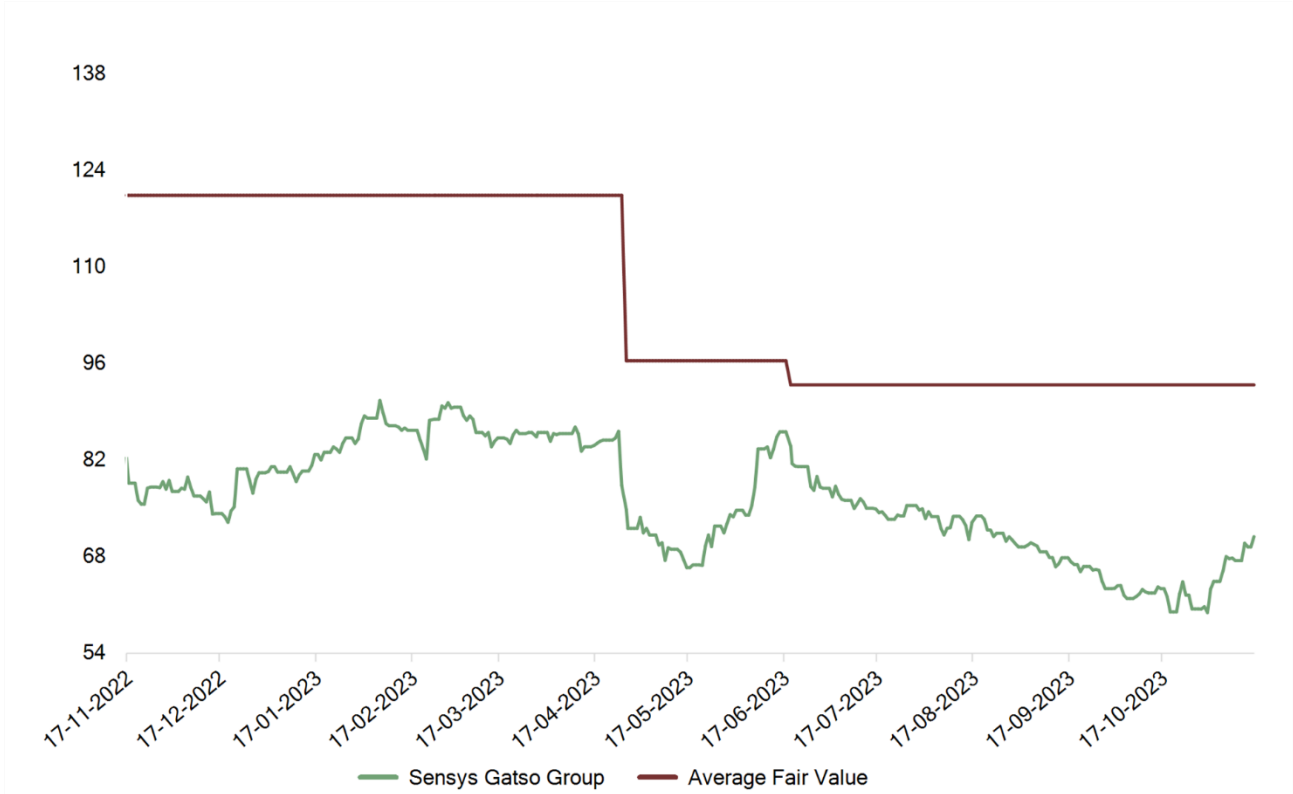
Valuation

	2019	2020	2021	2022	2023e	2024e	2025e
P/E, adjusted	Neg.	372,3x	25,2x	45,9x	33,4x	11,4x	9,3x
Price/book value	2,6x	2,9x	1,6x	1,5x	1,2x	1,1x	1,0x
P/FCF	Neg.	Neg.	Neg.	11,4x	Neg.	10,7x	9,4x
FCF yield	Neg.	Neg.	Neg.	9%	Neg.	9%	11%
Dividend yield	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Payout ratio, adjusted	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
EV/Sales	3,1x	3,3x	1,8x	1,8x	1,5x	1,1x	0,9x
EV/EBITDA, adjusted	43,6x	24,9x	11,1x	12,2x	11,7x	6,5x	5,5x
EV/EBIT, adjusted	Neg.	136,7x	20,2x	29,0x	28,3x	9,5x	8,0x
EV	1 245	1 480	925	895	907	907	907
Share price	109	134	76,5	79,8	70,5	70,5	70,5

Source: Sensys Gatso Group, EPB

Share price and average fair value

Sensys Gatso Group (SENS SS EQUITY)



Source: EPB, IDC

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